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SIA SECURITIES INDUSTRY ASSOCIATION

TRENDS

An Analysis of Emerging Trends in the Securities Industry

Produced by the SIA Research Department

Vol. XVI, No. 5 August 22, 1990

Securities Transactions Excise Tax: Wrong Tax, Wrong Time, Wrong Place

Highlights

1. *The Tax*

   Excise taxes are generally associated with products that policymakers want to curtail the consumption of. Investment in our capital markets fuels economic growth and is an activity to be encouraged not discouraged. An excise tax, or any other type of tax, on securities investment is bad policy.

2. *Who Pays?*

   In the case of equities, well over 180 million direct and indirect shareholders, reflecting all income classes. The STET is not a progressive tax on the wealthy, but a tax that falls heavily on pensioners and mutual fund shareholders.

3. *How Much?*

   Retail transaction costs would increase 25%-33%, while institutional costs would jump by three times.

4. *What's the Effect?*

   Estimates place the decline in stock prices at about 8% and the yield increase in non-Treasury debt at about 20 basis points. Stock market volume could decline between 8% and 12%. There is no guarantee that volatility will decrease because of a STET.

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5. *Bucking the Trend*

Of 15 countries surveyed (12 EC countries, Canada, Japan, U.S.), five have either lowered the rates of their taxes recently or are eliminating the tax. Six countries do not have transfer taxes. Only four countries have not perceived the need to respond to global competition.

6. *The Bottom Line*

Investor reactions will erode the government's overly optimistic estimate of tax revenues from a STET as trading activity declines and shifts to other markets.

7. *Conclusion*

Given both the current state of the economy and the low savings rate in the U.S., a STET is one of the poorest public policy choices available among tax alternatives as it negatively impacts savings channeled to our capital markets.

Securities Transactions Excise Tax: Wrong Tax, Wrong Time, Wrong Place

Introduction

After three months of meetings and negotiations, the budget "summiteers" have hammered out only the broad outlines of a budget agreement. When they return from the August recess, the summiteers will begin to put together a fiscal 1991 package that may include $50 billion in deficit reductions -- more than double the highest amount of deficit reduction Congress has ever been able to achieve in a single year -- and at least $500 billion over the next five years. A daunting task indeed, with the budget deficit coming in at $152 billion in 1989 and projected to be $195 billion in 1990 and $232 billion in 1991 (includes Resolution Trust Corporation).

While no solid budget plan has been put forth, a tentative Republican package reportedly designed by Richard Darman, Director of the Office of Management and Budget, has gained much attention. The $55 billion package, which is roughly divided between revenue increases and spending cuts, includes a limit on the deductibility of state and local taxes and increased excise taxes on beer and wine. Notably absent from the details of the plan that became public was the securities transactions excise tax (STET), a revenue raiser which was openly discussed in early July.

The securities industry and investors hope that a STET will not be included in any revenue proposals for the fiscal 1991 budget, or any other budget. In Mr. Darman's own words: "A stock transfer tax has no evident justification. It could cause distortions in the financial markets and could cause many investors, particularly institutions, to shift their equity trading away from the organized exchanges and to foreign countries."1/ Importantly, events of early August warn that our markets as well as economy are very fragile. Given both the state of the economy and the low rate of U.S. savings, a STET is one of the poorest public policy choices among tax alternatives as it impacts savings channelled to important segments of the U.S. capital markets.

Note: This *Trends* issue is based largely on material prepared this summer by SIA's Research Department on the STET.

1/ Statement before the Government Affairs Committee, January 1989.

The Tax. Not A New Idea.

The Revenue Act of 1918 first imposed a stamp tax on the issuance and transfer of certain securities, and it was not until the Excise Tax Reduction Act of 1965 that the last remnants of this tax were repealed. The Johnson Administration noted at the time that the reduction and elimination of various excise taxes, including the stamp tax, was designed to promote further economic expansion.

Speaker Jim Wright resurrected a 0.5% STET on purchases and sales in 1987 and a variation thereof has been included every year since by the Congressional Budget Office (CBO) in its annual list of revenue-raising options. Based on the CBO proposal, a 0.5% STET on the sale of most securities (with the notable exception of Treasuries) would raise some $7.8 billion in the first year, $11.6 billion in the second, and $57.7 billion over five years (SIA always had doubts about these estimates). Along with its revenue-generating potential, the tax appeals to those policymakers who are concerned about market volatility and the short-term focus of Corporate America (supposedly engendered by money managers with short-term horizons). However, a STET applying to both long- and short-term transactions does not appear to be an efficient way of resolving this particular problem.

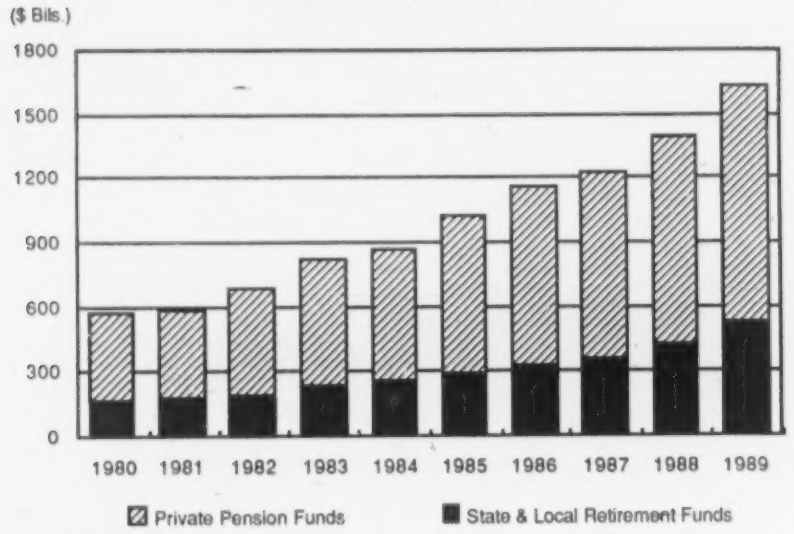
Excise taxes in the U.S. are generally associated with certain products that policymakers deem desirable to curtail. For example, the excise taxes on tobacco and liquor are often referred to as "sin taxes." Investment in our capital markets, however, fuels economic growth, an activity that public policy should obviously encourage. Thus, it is difficult to understand how a transactions tax can be seriously considered as a viable policy option given the "punishment" concept embodied in excise taxes.

Who Pays? All Savers.

Generally, the higher an individual's income, the more disposable income to save and invest, and the larger the value of securities holdings. Hence, the STET is viewed as more progressive than other excise taxes. The STET, however, is not just a tax on "fat cats," it is a tax that hits those individuals who have their savings invested through pension funds, insurance companies and mutual funds. Unlike many other nations, equity ownership in the U.S. is broad-based. Millions of individuals own stock -- directly and indirectly. Individuals or households directly own 56.3% of corporate stock outstanding, while institutional and other investors hold 43.7%. More critical, within the institutional investor category are the pooled savings and retirement funds of individuals whose future income is directly affected by the performance of investments and the associated costs, such as a STET.

Total financial assets less government securities of state and local and private pension funds rose from $577 billion in 1980 to $1,629 billion by year-end 1989. Since the tax being discussed covers more than equities, we believe the amount of funds raised from these intermediaries far exceeds the government estimates released so far. For example, if we assume a conservative turnover rate of just 40%, the $1.6 trillion in assets would generate $32 billion alone annually given a STET of 0.5%. Given the broad participation and population distribution of pension plans, a STET strikes pension plans representing the retirement income of millions of individuals of modest income.

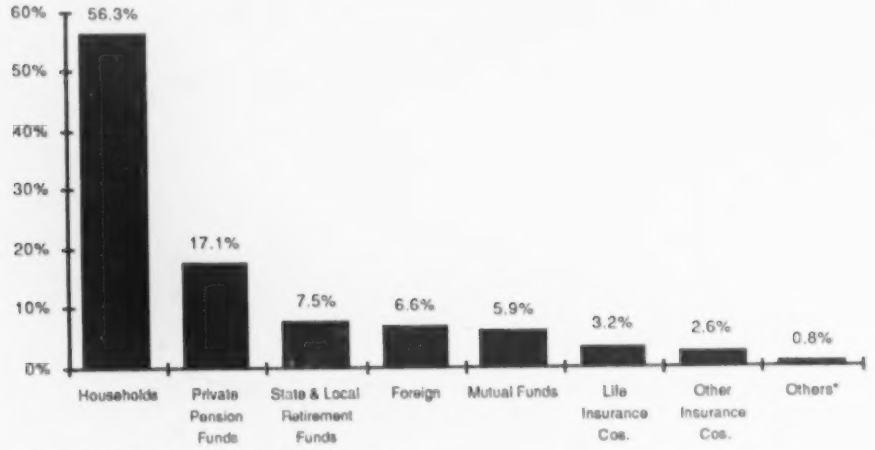
HOLDINGS OF PRIVATE PENSION AND GOVERNMENT RETIREMENT FUNDS



Note: Data excludes holdings of government issues

Private pension funds combined with state and local retirement funds hold almost 25% of total equities outstanding. As assets of these funds ballooned in the 1980s, equities became a weightier component of the portfolios of these funds. State and local retirement funds, in particular, increased investment in equities in the 1980s, with holdings escalating from $44.3 billion in 1980 to $280.1 billion by 1989. When individual shareholders are combined with private and public pension funds, individuals hold over 80% of equities outstanding. These direct and indirect stockholders -- well over 180 million individuals -- reflect all income classes, running the gamut from modest to top income earners.

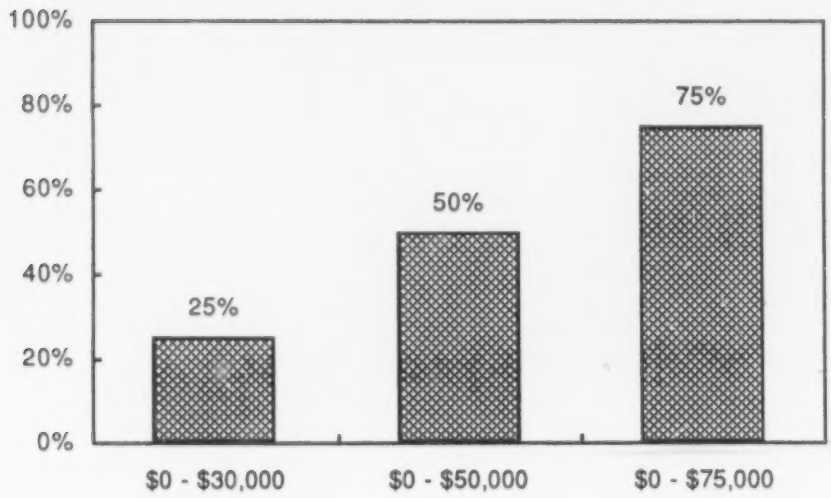
HOLDINGS OF U.S. EQUITIES
First Quarter 1990



*Commercial & mutual savings banks; broker-dealers.

The distribution of pension fund assets in 1990, based on estimates prepared for Merrill Lynch of the accrued levels of pension benefits for a representative group of pension plan participants, underscores the regressive nature of a STET.2/ Almost 25% of all accrued benefits (assets) are held by persons with family income less than $30,000. Almost half of all assets are held by persons with family incomes of less than $50,000, and almost 75% of all assets are held by persons with family incomes of less than $75,000. In 1988, over 78 million individuals participated in pension plans and over 72 million individuals had a vested right to receive benefits from at least one retirement plan. Pension plan participation has little to do with income or age -- 85% of pension plan participants had income under $50,000; about 46% of all individuals over age 20 participate in pension plans.

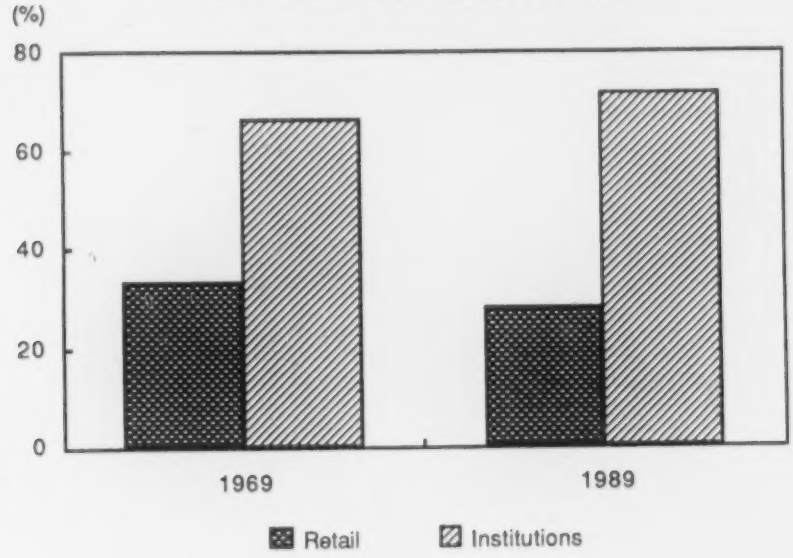
DISTRIBUTION OF PENSION FUND ASSETS BY FAMILY INCOME



A STET would hit pension plans and other institutions holding substantial assets on behalf of individuals. Estimates indicate that institutions account for about 75% of trading on the NYSE, hence a transfer tax would raise most of its receipts from institutional investors and not individual shareholders. Given the broad participation and population distribution of pension plans, a STET would strike pension plans holding billions of dollars in assets for individuals of modest income. This is not the result policymakers had in mind when they first proposed a STET "aimed at the rich".

2/ Unpublished research of Health & Sciences International Incorporated, commissioned by Merrill Lynch, August 1, 1990.

DISTRIBUTION OF TRADING BETWEEN INDIVIDUALS AND PROFESSIONALS



To the extent that a STET reduces the earnings of defined pension funds, corporations will have to pick up the slack. While these plans reportedly took back almost $19 billion in the 1980s as pension funds performed well, the monies returned most likely became reportable as corporate profits, enhancing both the corporation's stock price and Treasury tax revenues. For undefined plans, the STET will reduce benefits paid to retirees. For public pension funds, reduced investment earnings may require more tax dollars for increased public employer contributions.

Of note, a STET on the sale of securities is a tax on the winner -- and the loser. Those individual investors with capital losses are already limited to only a $3,000 loss offset against ordinary income. A STET could prove to be very discouraging to the common stock investor in particular. Common stock investment is already the highest taxed of capital investment, given the double tax on dividend income and the elimination of any capital gains differential.

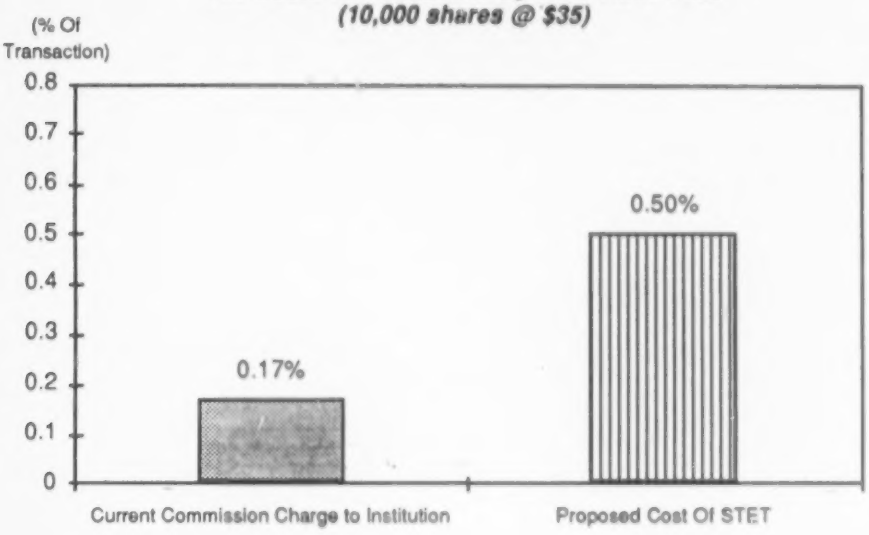
How Much? More Than You Think.

Any tax of 0.5% appears minimal at first blush. However, when applied to share transactions, the STET represents a significant increase in the cost of trading. For retail investors, the average commission varies between 1.5%-2.0% of the value of the order. On a 100 share order at $35, the STET would increase retail investment costs by 25%-33%. For institutional investors whose commissions range between 5¢-6¢ per share, a STET would increase transaction costs by three times.

Reducing the size of a STET may make it somewhat less onerous, but the impact still remains significant, particularly for institutional investors. For example, a 0.1%

STET would increase institutional trading costs by about 50% At a time when the U.S. is worried about low levels of savings and capital investment, any detriment to investment, even a seemingly small 0.1% tax, is counterproductive.

The Imposition Of A 0.5% Transaction Tax Will Increase The Costs To Institutions By Over Three-Fold (10,000 shares @ $35)



What's The Effect? Detrimental.

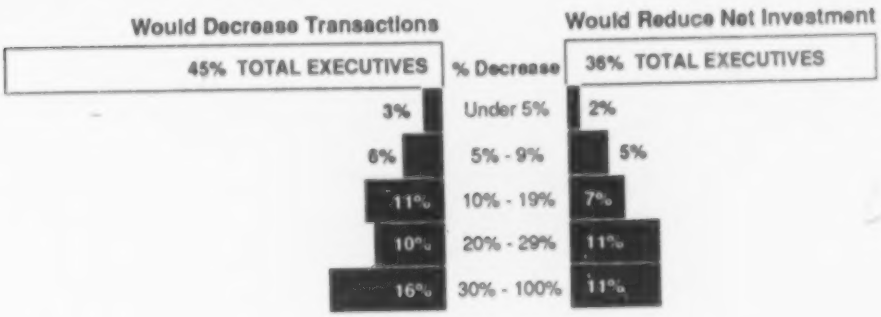
On the market...Any tax on securities investment reduces the return on that investment. A STET would tend to depress securities prices, as investors take into account the added tax burden. For short-term investment, where the spread is typically narrow, the tax could exceed the spread, thereby preventing the trade. Even for assets held longer, the STET would amount to a surcharge on earnings.

There have been several attempts to quantify the impact of a STET on securities prices. In May 1987, the Joint Committee on Taxation estimated a 0.5% STET on the purchase of corporate stock could cause stock prices to decline between 2% to 10%. More recently, a Goldman Sachs study shows that a STET could lower share prices by about 8%. In addition, a Congressional Research Service study puts its estimate of a 7.7% decrease in stock prices into perspective -- a STET would imply a drop of more than 220 points given a DJIA of about 2900.

The effect of a STET on the fixed-income markets is no less discouraging. The Public Securities Association notes that the discussed range of a STET would exceed, in many cases, the bid-offer spread prevailing in the fixed-income markets. Interestingly, in the government market (which would be exempted), a STET of either 0.5% or 0.15% would essentially halt trading. Merrill Lynch Capital Markets estimates a 0.5% tax on non-Treasury debt would cause a 20 basis points increase in yield and a 0.15% tax, a 5-10 basis points increase.

A recent survey by SIA and Opinion Research Corporation asked *executives* (500 in sample) what their reaction would be to a STET on the purchase and sale of common

stock.3/ To the best of our knowledge, this represents the first poll of investors as to their reaction to a STET. While the poll cannot be extrapolated to the general population, their response lends credence to the adverse impact of a STET on both securities prices and volume. Forty-five percent of the executives said they would decrease their stock market transactions by an average of 27.5%. About 36% of the executives stated they would reduce their net investment in common stock, with the



mean reduction 26.2%. The STET on common stock would send investors looking for other investment vehicles. More than half of the executives polled stated they would shift common stock investment dollars to alternative investments. The bottom line: a STET would reduce investments in taxed assets and lower the number of transactions.

Of special note, the exemption of Treasury securities from a STET is a somewhat obvious admission of the negative impact this tax would have. The STET, by lowering securities prices will, in effect, raise the cost of capital for all issuers -- except government. The U.S. already fares poorly in terms of capital costs compared to other nations.

The significant increase in transaction costs wrought by a STET will lead to a decrease in trading volume as investors "lock-in" or seek lower cost markets. For the individual investor, the STET is another added burden on the return from investment. Similar to the "last straw," investors could choose not to sell or to "lock-in." Assume the purchase of 100 shares of stock at an average price of $35. A $5 increase in the stock price represents a 14.3% gain and a $10 increase, a hefty gain of 28.6%. However, the net return to the investor after commissions (1.5% of value), a capital gains tax (top rate, 33%), and the STET (0.5%) is a far cry from the initial price gain. These factors combine to whittle away the investor's return to 6.3 % in the first example and 15.7% in the second (excluding dividends and inflation). No wonder many investors are seeking safe, conservative investments.

In the case of institutional investors, the U.S. currently is tied with Canada in offering the lowest institutional transaction costs based on a comparison of the major

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3/ *Executives' Investment Reactions to Tax Proposals Affecting Savings & Investments*, SIA, July 1990.

equities markets -- U.S., Canada, Japan and the U.K.[4/] The STET (averaging 0.5% on both sides of trade) would move the U.S. to the highest cost market for large institutional trades and to the second highest for small transactions. Even if a STET of 0.1% were placed on only the sell side, the U.S. would still rank as the second highest cost market. A transaction cost escalation of this magnitude will surely send institutional investors "shopping" for lower cost markets, i.e. foreign markets. It seems irrational that in an era of intensifying global competitiveness, the U.S. would jeopardize the preeminent position of its capital markets.

Even if as proponents of the STET claim, the tax would not send domestic transactions to other shores, foreign investors would be "shopping" for lower cost markets. Worldwide events in the 1990s -- an integrated European common market and Eastern Europe -- already present foreign investors with new investment opportunities and commitments. Building competition for capital has the potential to lessen the capital support foreign investors give to the U.S. equities markets in general. And, that support is significant -- in 1989, foreign gross activity in U.S. securities topped $4 trillion and net purchases neared $100 billion.

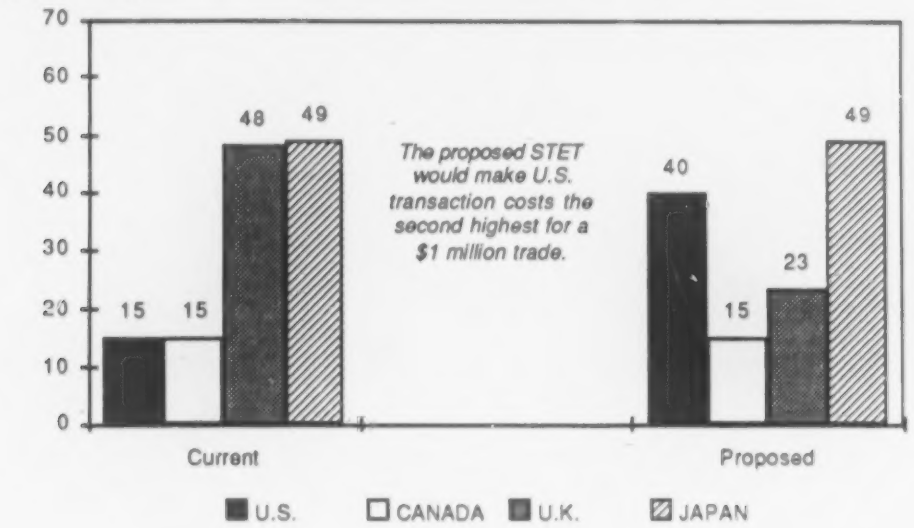
STET supporters argue that the STET diverts trading to other markets, the U.S. should have a monopoly in trading all securities. However, the trading of foreign securities in the U.S. is no simple matter. Many U.S. institutions are precluded from purchasing foreign securities that are not listed on a major U.S. exchange. To obtain such a listing requires disclosure and accounting standards that many foreign companies have been unwilling to adopt.

Foreign investors account for about 10% to 12% of the value of current trading in the U.S. equity market alone. With the STET discouraging both domestic and foreign trading, the value of trading could well fall more than 12% or 38 million shares per day based on first-half 1990 volume. By the way, the Congressional Research Service estimates a 7.9% decline in volume.

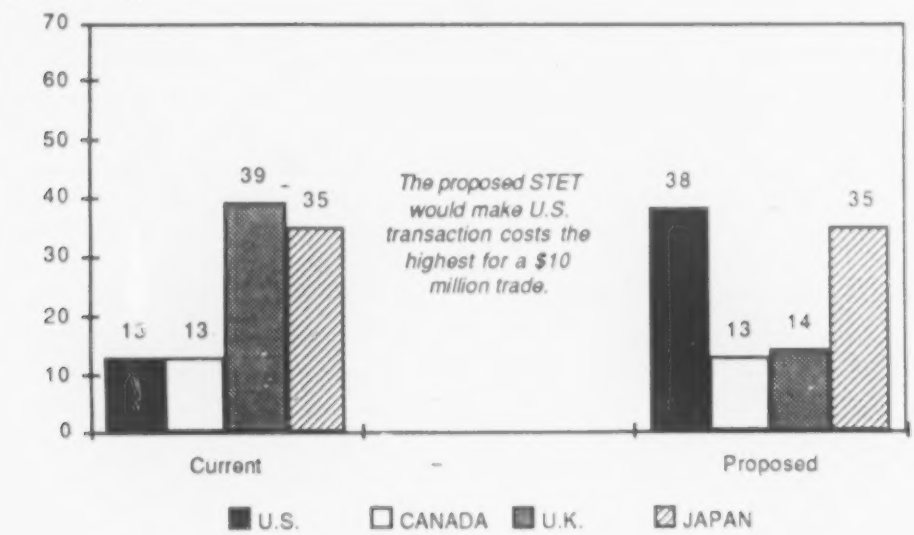
On market characteristics...Given its impact on stock prices and stock volume, the STET has ramifications for market characteristics. Reduced trading volume suggests that market liquidity -- the ability to buy and sell a security at a fair price when you want -- will be reduced. Proponents of a STET claim that reduced short-term trading would be beneficial, as it would most likely reduce volatility. The question of whether or not the stock market is more volatile today than in the past should be answered, as volatility is one of the driving forces behind a STET. Certainly there have been some very volatile days, with October 19, 1987 the most volatile day in a ranking of the Top 100 largest Dow percentage movements. Five other days during the 1980s also are on the Top 100 list, including recovery days following the crash. However, 94 of the Dow's most volatile days (in percentage terms) came before 1980 and, except for the six days in the 1980s, the Dow moved less than 5% per day in any given day in the decade.

4/ See *Institutional Equity Transaction Costs -- Effects on Costs by Current & Proposed STETs by Major Nations,* SIA Research Department, August 8, 1990.

CURRENT AND PROPOSED INSTITUTIONAL EQUITY TRANSACTION COSTS FOR $1 MILLION TRADE
(Average of Both Buyer and Seller)



CURRENT AND PROPOSED INSTITUTIONAL EQUITY TRANSACTION COSTS FOR $10 MILLION TRADE
(Average of Both Buyer and Seller)



Note: Current U.K. Stamp Tax and Japan STET averaged half each to both buyer and seller. Proposed 0.5% U.S. STET averaged half each to both buyer and seller; scheduled elimination of U.K. Stamp Tax.

It is the perception of volatility that has changed in the 1980s, not the reality. The focus has always been on point swings in the Dow instead of the percentage change. A 100 point move in the Dow eight years ago would have been a 13% change, today it is about 3%. There is a big difference between a Dow of almost 800 and almost 3000.

Reducing the number of buyers and sellers for any given security makes that particular security less liquid. This creates the potential for volatility as the trading range will be larger and the market impact of transactions will increase. The STET may well reduce volume and liquidity but not necessarily volatility.

A heightened volume level is also sometimes associated with volatility. Fears of market volatility should also have been eased by the dampened volume levels of recent years. When the STET was first proposed in 1987, volume averaged 189 million shares daily on the NYSE. Volume dropped 14% in 1988 and recovered a modest 2% in 1989. Through June of this year, volume has averaged 155.5 million shares -- almost 18% below the 1987 level. Moreover, there is no direct evidence that a STET would reduce market volatility.5/ The October 1987 crash seemed to be no less severe in foreign countries, despite the existence of transfer taxes.

While the STET has some distinct undesirable effects on the financial markets, those effects hold implications for the general economy. Based on a study by Merrill Lynch Capital Markets, a 0.5% tax on the sale of non-Treasury securities would result in a 5% drop in stock prices and an initial 20 basis point increase in yields on non-Treasury debt.6/ Under these assumptions, GNP growth would be about 0.5% less after one year and would be lower by a additional 0.4% after two years than might otherwise have been the case. Indeed, it is estimated that these declines would offset the benefit to the Federal deficit that would result from the tax after one year and would actually increase the deficit after two years.

Bucking The International Trend

In mid-1987, the European Commission unveiled a plan to eliminate taxes on securities transactions throughout the European Community (EC).7/ This proposal is part of the Commission's drive to create a barrier-free market for goods and services by 1992. The Commission's initial proposal, released in 1976, called for the harmonization of transaction taxes rather than abolition of the tax because of revenue considerations. However, the Commission recognized that "the most desirable solution, from the point of view of the establishment of a real European capital market,

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5/ *Reducing the Deficit: Spending and Revenue Options,* Congressional Budget Office Report, February 14, 1990.

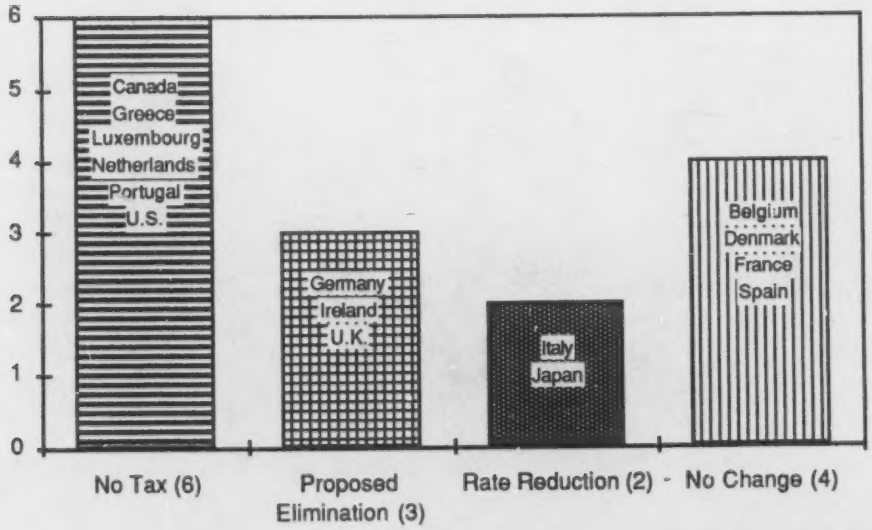
6/ *Economic Consequences of a Securities Transfer Tax,* Merrill Lynch Capital Markets Global Securities Research & Economics Group, July 1990.

7/ *A Comparison of Trends on Securities Transaction Taxes: The U.S. and Its Major Competitors,* J. Schaefer and D. Strongin, SIA, July 25, 1990.

would be the abolition, purely and simply, of these taxes." While this proposal is still under consideration, there is an independent movement under way in many countries to eliminate or reduce the rate of transfer taxes for competitive purposes.

Of 15 countries surveyed, (12 EC countries, Canada, Japan, U.S.) five of these countries have either lowered the rates of such taxes recently or are in the process of eliminating the tax entirely. Moreover, six of the countries do not have a transfer tax. Most recently, the Netherlands abolished the tax as of July 1990.

Securities Transaction Tax Trends
In Fifteen Countries



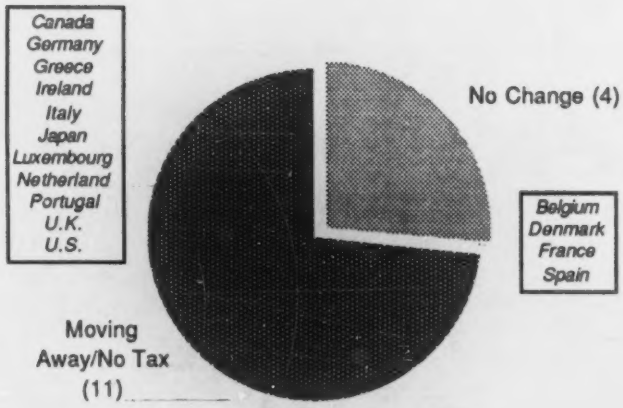
The following three nations are in the process of eliminating the tax--Germany, Ireland, and the United Kingdom. All of these nations are planning to eliminate the transfer tax by late 1991. In announcing the proposal to abolish all stamp duties on transactions in shares, the U.K. Chancellor commented that abolition of these duties will: 1. enhance London's competitiveness as an international center for equity trading and, 2. boost wider shareownership by reducing transaction costs and benefit savers.8/ Two countries - Italy and Japan - recently lowered their transfer taxes. Only four countries, Belgium, Denmark, France, and Spain have not as yet recognized the increased global competitiveness of the world's securities markets.

Canada, Greece, Luxembourg, the Netherlands, Portugal and the U.S. do not have a transaction tax. Neither Canada nor the U.S. have transaction taxes and are distinct from the other countries. Given the number of interlisted securities on these two markets (180), the consideration of a transfer tax by one country and not the other

8/ *Stamp Duty on Shares to be Abolished*, Inland Revenue Press Release, March 20, 1990.

would have major competitive implications. Moreover, there is a history of parallel movement in regulation or deregulation between Canada and the U.S. The competitive threat of losing transactions to the U.S. when fixed commissions were abolished, in part, led to the elimination of Canadian fixed commission rates. Canada appears to be strongly opposed to transfer taxes. Not only does Canada currently not have such a tax, but securities will remain exempt from the 7% goods and services tax scheduled to take effect January 1, 1991.

A Majority Of Countries Are Moving Away From The Transfer Tax



Clearly, the imposition of a STET in the U.S. would be inconsistent with and counter to the international trend. Our foreign competitors would like nothing more than for the U.S. to proceed with adoption of a securities transaction tax. The largest foreign markets are well aware that U.S. institutions can trade through London or other financial centers in the many internationally-traded U.S. issues. Indeed, the July 9 *Financial Times* reported: If the Administration decides to go ahead with the securities turnover tax, it will have strong support in the City of London.

The Bottom Line. A Disappointed Treasury.

The CBO estimates that a STET would generate revenues of $11.5 billion annually, on average. Given the aforementioned considerations, this estimate is very optimistic. The effect of investor reaction -- individual, institutional, and foreign -- will reduce share volume and prices, thereby eroding government's tax take. In this sense, the STET is indeed an excise tax as it will curb the demand for securities investment.

Put into another perspective, the government estimate places revenues from a STET at more than the commission revenues generated by the entire NYSE membership in 1989 or 1988. A revenue estimate which is larger than the entire

revenues of the industry supplying the service is, questionable. Moreover, given the nature of the securities business, the revenue raised by a securities transactions tax would probably be more "volatile" over time than most other tax revenue sources. To provide a recent example, the total dollar value of trading on the New York Stock Exchange (NYSE) increased by 36 percent in 1987, decreased by 28 percent in 1988, and rose by 14 percent in 1989.9/ In overall terms, the 1980s have been very active times for the financial markets, both in the U.S. and abroad. A recession, however, particularly a deep recession, could reduce both prices and trading volume significantly, thereby reducing revenues from a transactions tax.

Conclusion

When policymakers once again turn to the tough job of putting together a fiscal 1991 budget, the STET may very well come up for discussion again. While there are many permutations of the basic STET concept, there are none which would make this, or any other tax on securities investment, good public policy. The case against the STET is a strong one. It is a tax on all investors in our capital markets that will be borne by retirees, mutual fund investors, state and local employees, corporations, etc. The damage that could be done to investors and our financial markets far outweigh questionable revenue estimates. The government must look elsewhere for its revenue requirements. A STET would be the wrong tax, at the wrong time, on the wrong activity. Let us all recognize how dramatically conditions and the markets have changed since the 1987 crash.

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Carolyn Hildebrandt, Assistant Vice President &
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George R. Monahan, Director of Industry Studies

David G. Strongin, Director, International Finance

Grace Toto, Research Assistant

9/ *The Securities Transactions Tax: An Overview of the Issues,* Donald W. Keifer, Congressional Research Service, July 25, 1990.

VOLUME

	JUNE 1990	YTD 1990	JUNE 1989	YTD 1989	% CHG YTD 1990-1989
AVERAGE DAILY SHARE VOLUME ON					
NYSE (MILS.)*	153.6	155.8	180.3	168.2	-7.4%
AMEX (MILS.)*	12.4	14.0	13.5	11.7	19.3%
NASDAQ (MILS.)*	149.7	139.1	137.7	134.1	3.8%
REGIONAL EXCHANGE (MILS.)*	24.3	24.9	26.7	26.6	-6.3%
DOLLAR VALUE OF SHARES TRADED ON					
NYSE (MILS.)	$115,622	$687,021	$152,058	$763,416	-10.0%
AMEX (MILS.)	3,169	20,230	4,762	20,690	-2.2%
ODD-LOT SHARES PURCHASED ON NYSE (THOUS.)	11,141	59,047	10,678	57,644	2.4%
ODD-LOT SHARES SOLD (INCLUDING SHORT SALES) ON NYSE (THOUS.)	14,834	87,436	18,063	102,884	-15.0%
NYSE BLOCK VOLUME AS A PERCENT OF TOTAL SHARES TRADED	49.9%	50.1%	53.1%	52.6%	----
CONTRACTS TRADED (THOUS.)					
CBOE OPTIONS	10,745	64,443	11,799	65,140	-1.1%
AMEX OPTIONS	2,544	17,947	3,492	20,366	-11.9%
COMMODITY	22,004	139,740	27,415	140,162	-0.3%

*MONTHLY AVERAGE
N/A - DATA NOT AVAILABLE

PRICES
(END OF MONTH)

	JUNE 1990	JUNE 1989	% CHG JUNE 1990-1989
DOW JONES INDUSTRIALS	2880.69	2440.06	18.06%
STANDARD & POOR'S 500	358.02	317.98	12.59%
NYSE COMPOSITE	195.48	177.90	9.88%
AMEX MARKET VALUE INDEX	361.21	358.97	0.62%
VALUE LINE COMPOSITE	245.97	259.86	-5.35%
NASDAQ COMPOSITE	462.29	435.29	6.20%

YIELDS
(MONTHLY AVERAGES)

	JUNE 1990	JUNE 1989	BASIS POINT CHG 1990-1989
BOND BUYER INDEX (20 BOND)	7.24%	7.02%	22
CORPORATE BOND YIELDS (MOODY'S)			
Aaa CORPORATE	9.26	9.10	16
Baa CORPORATE	10.22	10.03	19
RATIO Aaa CORPS. TO Baa CORPS.	0.91	0.91	0

UNDERWRITING

	FIRST HALF 1990	FIRST HALF 1989	% CHANGE 1990-1989
CORPORATE FINANCING (Gross New Issues - $ Mils)			
TOTAL	$163,912.6	$142,336.4	15.2%
Common Stock	$12,891.5	$8,879.5	45.2%
# of Common Stock Issues	247	187	32.1%
Preferred Stock	$2,846.3	$2,241.2	27.0%
# of Preferred Stock Issues	51	37	37.8%
Corporate Debt	$148,174.8	$131,215.7	12.9%
# of Corporate Debt Issues	663	726	-8.7%
MUNICIPAL FINANCING (Gross New Issues - $ Mils)			
Negotiated	$43,459.9	$40,312.1	7.8%
# of Issues	2,028	2,504	-19.0%
Competitive	$15,976.0	$15,124.2	5.6%
# of Issues	1,736	1,730	0.3%

Source: Securities Data Co.

RECENT INTERESTING READING AND STATISTICAL MATERIAL

Item	*Description*	*Source*
Survey of Transfer Taxes	This survey examines transaction taxes in eleven major capital markets. The study indicates that while the majority of countries reviewed impose transfer taxes, an increased awareness of the growing global nature of today's markets has started a movement to eliminate this impediment to free-flowing capital markets. The survey was independently conducted by Ernst & Young for SIA.	SIA Research Deptartment 212/608-1500
Economic Consequences of a Securities Transfer Tax	This report concludes that an 0.5% tax on the sale of non-Treasury securities could result in a 5% drop in stock prices and an initial 20 basis point increase in yields on non-Treasury debt. Moreover, GNP growth would be about 0.5% less after one year and would be lower by an additional after two years than might otherwise have been the case.	Merrill Lynch Capital Markets Global Securities Research & Economics Group World Financial Center North Tower New York, NY 10281-1320
Effects of a Securities Transaction Tax on the Fixed-Income Securities Markets	This study shows the negative impact of a securities transaction excise tax on fixed-income instruments. In addition, the effect on the cash and futures markets are exposed. The fixed-income market would be particularly hard hit as the discussed range of the STET would exceed, in many cases, the bid-offer spread prevailing in the market. The results of such a tax would be increased cost of borrowing, increased volatility, lower return for investors in pension and mutual funds and less revenue to the U.S. Treasury than forecast.	Public Securities Association 1000 Vermont Ave., N.W Suite 800 Washington, DC 20005
The Case For A Securities Transaction Excise Tax	The paper lays out the theoretical and empirical arguments that excessive short-term trading in securities markets can reduce economic efficiency. The article concludes that a STET would not be harmful to the economy, and if it reduced market speculation, it could be helpful to the economy. Indeed, the tax would not discourage long-term investment. Moreover, the article notes that the tax would not drive financial markets overseas, would not make American capital markets dangerously illiquid, and would not have a significant adverse impact on equity values or unduly burden American workers.	Tax Notes 6830 No. Fairfax Drive Arlington, VA 22213 August 13, 1990

Item	*Description*	*Source*
The Securities Transaction Tax: An Overview of the Issues	This report provides an overview of the policy issues regarding a stock transfer tax. It concludes: 1) a 0.5% tax could cause trading volume to decline by about 7.9% and market prices to decline about 7.7%; 2) the tax probably would not have any significant effect on volatility; 3) the effect of the tax on the cost of capital is likely to be small; and 4) the argument that resources are wasted in the pursuit of profits in speculative trading in the financial markets has not been demonstrated in a rigorous empirical analysis.	Donald W. Kiefer Congressional Research Service The Library of Congress July 25, 1990
A Position Paper Evaluating A Securities Transaction Excise Tax In The U.S.: Domestic and International Implications	The position paper argues that a securities transaction excise tax would not only impede the efficiency of the U.S. markets, raising costs for issuers, investors and intermediaries, but would also damage the competitiveness of the U.S. capital markets on an international basis; in one of the few markets where the U.S. is still a leader.	SIA Research Department 212/608-1500
Executives' Investment Reactions to Tax Proposals Affecting Savings & Investment	A joint SIA/Opinion Research Corporation study on investor responses to various tax proposals on capital gains, double taxation of corporate earnings, and exempting interest and dividends on long-term investments. For the first time, perhaps, investors were also polled as to how a stock transaction tax would affect their investment decisions. The survey indicated that a transaction tax would cause a sizable decline in both the number of stock transactions and the amount invested in stocks.	SIA Reseach Department 212/608-1500